

**GREGORY SCHOOL DISTRICT NO. 26-4
OF GREGORY COUNTY**

AUDIT REPORT

FISCAL YEAR JULY 1, 2019, TO JUNE 30, 2020

Schoenfish & Co., Inc.

CERTIFIED PUBLIC ACCOUNTANTS

P.O. Box 247

105 EAST MAIN, PARKSTON, SOUTH DAKOTA 57366

GREGORY SCHOOL DISTRICT NO. 26-4

GREGORY SCHOOL DISTRICT NO. 26-4
SCHOOL DISTRICT OFFICIALS
JUNE 30, 2020

BOARD MEMBERS:

Karen Timanus – President
David Shoemaker – Vice-President
Cara Hull
Todd Schweigert
Bob Wik

SUPERINTENDENT:

Sara Anderson

BUSINESS MANAGER:

Kevin Myrmoe

Schoenfish & Co., Inc.

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

School Board
Gregory School District No. 26-4
Gregory, South Dakota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Gregory School District No. 26-4, South Dakota (School District), as of June 30, 2020 and for the year then ended, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements and have issued our report thereon dated November 9, 2020, which was qualified for the governmental activities because of lack of reporting OPEB liability and earnings on investments on QZAB #3 could not be determined.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the School District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the School District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Current Audit Findings, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the School District's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Current Audit Findings as item 2020-001 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

School District's Responses to Findings

The School District's response to the finding identified in our audit are described in the accompanying Schedule of Current Audit Findings. The School District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. As required by South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.



Schoenfish & Co., Inc.
Certified Public Accountants
November 9, 2020

Schoenfish & Co., Inc.

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SCHEDULE OF PRIOR AUDIT FINDINGS

PRIOR OTHER AUDIT FINDINGS:

Internal Control Over Revenues:

Finding Number 2019-001:

A material weakness in internal controls was noted due to a lack of proper segregation of duties for revenues resulting in decreased reliability of reported financial data and increased potential for the loss of public assets. This comment has not been corrected and is restated as current audit finding number 2020-001.

Finding Number 2019-002:

Errors and omissions were noted in the annual financial statements prepared by school officials. This comment has been corrected.

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SCHEDULE OF CURRENT AUDIT FINDINGSCURRENT OTHER AUDIT FINDINGS:Internal Control – Related Findings – Material Weaknesses:Finding Number 2020-001:

A material weakness in internal controls was noted due to a lack of proper segregation of duties for revenues. This has been a continuing comment since fiscal year 1999.

Criteria:

Proper segregation of duties results in increased reliability of reported financial data and decreased potential for the loss of public assets.

Condition:

A limited number of employees process all revenue transactions from beginning to end. They also receive money, issue receipts, record receipts, post receipts in the accounting records, prepare bank deposits, reconcile bank statements, and prepare financial statements.

Effect:

As a result, there is an increased likelihood that errors could occur and not be detected in a timely manner by employees in the ordinary course of performing their duties.

RECOMMENDATION:

1. We recommend that the Gregory School District officials be cognizant of this lack of segregation of duties for revenues and attempt to provide compensating internal controls whenever, and wherever, possible and practical.

Management's Response:

The Gregory School District Board President, Karen Timanus, is the contact person responsible for the corrective action plan for this comment. This comment is due to the size of the Gregory School District which precludes staffing at a level sufficient to provide an ideal environment for internal controls. We are aware of this problem and are developing policies and attempting to provide compensating controls.

CLOSING CONFERENCE

The audit was discussed with the officials during the course of the audit and with the Board President, the Superintendent, and the Business Manager on September 29, 2020.

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INDEPENDENT AUDITOR'S REPORT

School Board
Gregory School District No. 26-4
Gregory County, South Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Gregory School District No. 26-4, South Dakota, (School District) as of June 30, 2020 and for the year then ended, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

The School District's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the School District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the School District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Basis for Qualified Opinions

The School District did not record the unfunded liability for other post-employment benefits in the governmental activities. The total OPEB liability of the employer was not actuarially determined in accordance with GASB Statement 75 but the liability at June 30, 2020 is potentially a material amount.

The escrow balance for QZAB #3 was part of a bigger escrow account in which many schools were included. As a result, the amount of the school's portion, specifically the earnings on investment of the escrow balance, was not reasonably determinable.

Qualified Opinions

In our opinion, except for the effects, if any, of the matters discussed in the Basis for Qualified Opinions paragraphs, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and QZAB #3 Debt Service Fund of Gregory School District No. 26-4 as of June 30, 2020, and the respective changes in financial position, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Unmodified Opinions

In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, each major fund except the QZAB #3 Debt Service Fund, and the aggregate remaining fund information of Gregory School District No. 26-4 as of June 30, 2020, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Budgetary Comparison Schedules, the Schedule of the School District's Proportionate Share of the Net Pension Liability (Asset), and the Schedule of the School District Contributions on pages 42 through 45, 47, and 48, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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The School District has omitted the Management's Discussion and Analysis (MD&A) that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 9, 2020 on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School District's internal control over financial reporting and compliance.



Schoenfish & Co., Inc.
Certified Public Accountants
November 9, 2020

Schoenfish & Co., Inc.

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GREGORY SCHOOL DISTRICT NO. 26-4
STATEMENT OF NET POSITION
As of June 30, 2020

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
ASSETS:			
Cash and Cash Equivalents	3,723,243.03	75,427.47	3,798,670.50
Taxes Receivable	1,155,483.34		1,155,483.34
Other Assets	260,135.52	13,003.89	273,139.41
Inventories		13,263.84	13,263.84
Restricted Assets:			
Cash and Cash Equivalents	432,920.46		432,920.46
Net Pension Asset	11,150.12		11,150.12
Capital Assets:			
Land	13,500.00		13,500.00
Other Capital Assets, Net of Depreciation	4,953,991.95	16,361.08	4,970,353.03
TOTAL ASSETS	10,550,424.42	118,056.28	10,668,480.70
DEFERRED OUTFLOWS OF RESOURCES:			
Pension Related Deferred Outflows	576,031.09		576,031.09
TOTAL DEFERRED OUTFLOWS OF RESOURCES	576,031.09	0.00	576,031.09
LIABILITIES :			
Accounts Payable	32,433.03	8,803.80	41,236.83
Other Current Liabilities	348,083.64	8,518.63	356,602.27
Noncurrent Liabilities:			
Due Within One Year	151,470.00		151,470.00
Due in More than One Year	1,243,718.55		1,243,718.55
TOTAL LIABILITIES	1,775,705.22	17,322.43	1,793,027.65
DEFERRED INFLOWS OF RESOURCES:			
Taxes Levied for Future Period	1,155,483.34		1,155,483.34
Pension Related Deferred Inflows	232,388.40		232,388.40
TOTAL DEFERRED INFLOWS OF RESOURCES	1,387,871.74	0.00	1,387,871.74
NET POSITION:			
Net Investment in Capital Assets	3,661,491.95	16,361.08	3,677,853.03
Restricted for:			
Capital Outlay Purposes	2,286,483.62		2,286,483.62
Special Education Purposes	506,736.12		506,736.12
Debt Service Purposes	432,920.46		432,920.46
SDRS Pension Purposes	354,792.81		354,792.81
Unrestricted (Deficit)	720,453.59	84,372.77	804,826.36
TOTAL NET POSITION	7,962,878.55	100,733.85	8,063,612.40

The notes to the financial statements are an integral part of this statement.

GREGORY SCHOOL DISTRICT NO. 26-4
STATEMENT OF ACTIVITIES
 For the Year Ended June 30, 2020

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government	
					Governmental Activities	Business-Type Activities
Primary Government:						
Governmental Activities:						
Instruction	2,583,052.26	22,612.43	280,790.61		(2,302,261.65)	(2,302,261.65)
Support Services	1,278,508.42	5,400.00			(1,255,895.99)	(1,255,895.99)
Community Services	16,902.50				5,400.00	5,400.00
*Interest on Long-Term Debt	274,130.52	24,739.00			(16,902.50)	(16,902.50)
Cocurricular Activities	4,152,593.70	52,751.43			(249,391.52)	(249,391.52)
Total Governmental Activities	4,152,593.70	52,751.43	280,790.61	0.00	(3,819,051.66)	(3,819,051.66)
Business-type Activities:						
Food Service	216,706.45	76,717.59	166,447.28		26,458.42	26,458.42
Driver's Education	325.96				(325.96)	(325.96)
Preschool	13,691.02	19,073.87			5,382.85	5,382.85
Total Business-type Activities	230,723.43	95,791.46	166,447.28	0.00	31,515.31	31,515.31
Total Primary Government	4,383,317.13	148,542.89	447,237.89	0.00	(3,819,051.66)	(3,787,536.35)

* The District does not have interest expense related to the functions presented above. This amount includes indirect interest expense on general long-term debt.

General Revenues:	
Taxes:	
Property Taxes	2,304,956.47
Utility Taxes	155,923.51
Revenue from State Sources:	
State Aid	1,649,027.33
Unrestricted Investment Earnings	26,822.86
Other General Revenues	46,270.79
Total General Revenues	4,183,000.96
Change in Net Position	363,949.30
Net Position - Beginning	7,598,929.25
NET POSITION - ENDING	7,962,878.55

The notes to the financial statements are an integral part of this financial statement.

**GREGORY SCHOOL DISTRICT NO. 26-4
BALANCE SHEET
GOVERNMENTAL FUNDS
As of June 30, 2020**

ASSETS:	General Fund	Capital Outlay Fund	Special Education Fund	QZAB # 3 Debt Service Fund	QZAB # 4 Debt Service Fund	Total Governmental Funds
Cash and Cash Equivalents	927,862.43	2,306,999.74	483,380.86			3,718,243.03
Advanced Payments	5,000.00					5,000.00
Taxes Receivable--Current	445,767.73	384,062.42	260,211.69			1,090,041.84
Taxes Receivable--Delinquent	31,937.29	21,275.88	12,228.33			65,441.50
Due from Other Governments	195,570.52		64,565.00			260,135.52
Restricted Cash and Cash Equivalents				234,120.46	198,800.00	432,920.46
TOTAL ASSETS	1,606,137.97	2,712,338.04	820,385.88	234,120.46	198,800.00	5,571,782.35

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES:

Liabilities:						
Accounts Payable	11,916.91	20,516.12				32,433.03
Contracts Payable	243,960.85		28,605.05			272,565.90
Payroll Deductions and Withholdings and Employer Matching Payable	62,913.05		12,604.69			75,517.74
Total Liabilities	318,790.81	20,516.12	41,209.74	0.00	0.00	380,516.67
Deferred Inflows of Resources:						
Unavailable Revenue - Property Taxes	31,937.29	21,275.88	12,228.33			65,441.50
Taxes Levied for a Future Period	445,767.73	384,062.42	260,211.69			1,090,041.84
Deferred Inflows of Resources	477,705.02	405,338.30	272,440.02	0.00	0.00	1,155,483.34

**Fund Balances:
Restricted:**

Capital Outlay		2,286,483.62				2,286,483.62
Special Education			506,736.12			506,736.12
Debt Service				234,120.46	198,800.00	432,920.46
Assigned for Unemployment	15,009.52					15,009.52
Assigned for Next Year's Budget	6,100.00					6,100.00
Unassigned	788,532.62					788,532.62
Total Fund Balances	809,642.14	2,286,483.62	506,736.12	234,120.46	198,800.00	4,035,782.34

TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES

	1,606,137.97	2,712,338.04	820,385.88	234,120.46	198,800.00	5,571,782.35
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The notes to the financial statements are an integral part of this statement.

GREGORY SCHOOL DISTRICT NO. 26-4
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position
June 30, 2020

Total Fund Balances - Governmental Funds	<u>4,035,782.34</u>
Amounts reported for governmental activities in the statement of net position are different because:	
Net pension asset reported in governmental activities is not due and payable in the current period and therefore is not reported in the funds.	<u>11,150.12</u>
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	<u>4,967,491.95</u>
Pension related deferred outflows are components of pension liability (asset) and therefore are not reported in the funds.	<u>576,031.09</u>
Long-term liabilities, including QZAB bonds payable, capital outlay certificates payable, SDSDBF Insurance deficit, and accrued leave payable, are not due and payable in the current period and therefore are not reported in the funds.	<u>(1,395,188.55)</u>
Pension related deferred inflows are components of pension liability (asset) and therefore are not reported in the funds.	<u>(232,388.40)</u>
Net Position - Governmental Activities	<u><u>7,962,878.55</u></u>

The notes to the financial statements are an integral part of this statement.

GREGORY SCHOOL DISTRICT NO. 26-4
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2020

	General Fund	Capital Outlay Fund	Special Education Fund	QZAB # 3 Debt Service Fund	QZAB # 4 Debt Service Fund	Total Governmental Funds
Revenues:						
Revenue from Local Sources:						
Taxes:						
Ad Valorem Taxes	954,609.02	815,019.78	509,113.03			2,278,741.83
Prior Years' Ad Valorem Taxes	8,306.22	5,723.98	3,583.09			17,613.29
Utility Taxes	155,923.51					155,923.51
Penalties and Interest on Taxes	4,090.98	2,859.03	1,651.34			8,601.35
Earnings on Investments and Deposits	21,666.07			5,156.79		26,822.86
Co-curricular Activities:						
Admissions	24,739.00					24,739.00
Other Revenue from Local Sources:						
Rentals	1,255.00					1,255.00
Charges for Services	21,251.43		1,361.00			22,612.43
Day Care Services	5,400.00					5,400.00
Other	19,176.87	9,161.63	323.00			28,661.50
Revenue from Intermediate Sources:						
County Sources:						
County Apportionment	14,623.29					14,623.29
Revenue from State Sources:						
Grants-in-Aid:						
Unrestricted Grants-in-Aid	1,649,027.33					1,649,027.33
Restricted Grants-in-Aid	2,063.05					2,063.05
Revenue from Federal Sources:						
Grants-in-Aid:						
Restricted Grants-in-Aid Received from Federal Government Through the State	182,593.56		96,134.00			278,727.56
Total Revenue	3,064,725.33	832,764.42	612,165.46	5,156.79	0.00	4,514,812.00

The notes to the financial statements are an integral part of this statement.

GREGORY SCHOOL DISTRICT NO. 26-4
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2020

	General Fund	Capital Outlay Fund	Special Education Fund	QZAB # 3 Debt Service Fund	QZAB # 4 Debt Service Fund	Total Governmental Funds
Expenditures:						
Instruction:						
Regular Programs:						
Elementary	769,707.53	29,043.27				798,750.80
Middle/Junior High	278,773.86					278,773.86
High School	671,790.57	47,048.66				718,839.23
Special Programs:						
Programs for Special Education			347,987.52			347,987.52
Educationally Deprived	178,355.82					178,355.82
Support Services:						
Students:						
Guidance	60,809.64		6,847.68			67,657.32
Health	728.50					728.50
Psychological			38,070.48			38,070.48
Speech Pathology			72,433.00			72,433.00
Student Therapy Services			25,991.45			25,991.45
Instructional Staff:						
Improvement of Instruction	21,620.42					21,620.42
Educational Media	68,586.32					68,586.32
General Administration:						
Board of Education	28,071.47					28,071.47
Executive Administration	123,724.94					123,724.94
School Administration:						
Office of the Principal	150,605.85					150,605.85
Other	1,029.03					1,029.03
Business:						
Fiscal Services	90,768.53					90,768.53
Facilities Acquisition and Construction		13,889.66				13,889.66
Operation and Maintenance of Plant	324,228.21	8,860.92				333,089.13
Student Transportation	74,695.81					74,695.81
Food Services	11,182.56					11,182.56
Special Education:						
Administrative Costs			28,494.48			28,494.48

The notes to the financial statements are an integral part of this statement.

GREGORY SCHOOL DISTRICT NO. 26-4
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2020

	General Fund	Capital Outlay Fund	Special Education Fund	QZAB # 3 Debt Service Fund	QZAB # 4 Debt Service Fund	Total Governmental Funds
Expenditures (Cont.):						
Debt Services		116,902.50				116,902.50
Cocurricular Activities:						
Male Activities	67,330.93					67,330.93
Female Activities	56,345.46					56,345.46
Transportation	5,837.97					5,837.97
Combined Activities	96,185.71	15,786.03				111,971.74
Capital Outlay		165,979.68				165,979.68
Total Expenditures	3,080,379.13	397,510.72	519,824.61	0.00	0.00	3,997,714.46
Excess of Revenue Over (Under) Expenditures	(15,653.80)	435,253.70	92,340.85	5,156.79	0.00	517,097.54
Other Financing Sources (Uses):						
Transfers In					56,800.00	70,618.52
Transfers Out		(70,618.52)		13,818.52		(70,618.52)
Sale of Surplus Property	1,731.00					1,731.00
Total Other Financing Sources (Uses)	1,731.00	(70,618.52)	0.00	13,818.52	56,800.00	1,731.00
Net Change in Fund Balances	(13,922.80)	364,635.18	92,340.85	18,975.31	56,800.00	518,828.54
Fund Balance - Beginning	823,564.94	1,921,848.44	414,395.27	215,145.15	142,000.00	3,516,953.80
FUND BALANCE - ENDING	809,642.14	2,286,483.62	506,736.12	234,120.46	198,800.00	4,035,782.34

The notes to the financial statements are an integral part of this statement.

GREGORY SCHOOL DISTRICT NO. 26-4
Reconciliation of the Statement of Revenues, Expenditures and Changes In Fund
Balances to the Government-Wide Statement of Activities
For the Year Ended June 30, 2020

Net Change in Fund Balances - Total Governmental Funds	<u>518,828.54</u>
Amounts reported for governmental activities in the statement of activities are different because:	
This amount represents capital asset purchases which are reported as expenditures on the fund financial statements but increase assets on the government-wide statements.	<u>165,979.68</u>
This amount represents the current year depreciation expense reported in the statement of activities which is not reported on the fund financial statements because it does not require the use of current financial resources.	<u>(142,643.65)</u>
Payment of principal on long-term debt is an expenditure in the governmental funds but the payment reduces long-term liabilities in the statement of net position.	<u>100,000.00</u>
Governmental funds recognize expenditures for amounts of compensated absences actually paid to employees with current financial resources during the fiscal year. Amounts of compensated absences earned by employees are not recognized in the funds. In the statement of activities, expenses for these benefits are recognized when the employees earn leave credits.	<u>197.81</u>
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. (pension expense) (SDSDBF Insurance Deficit)	<u>42,355.40</u>
Changes in the pension related deferred outflows/inflows are direct components of pension liability (asset) and are not reflected in the governmental funds.	<u>(320,768.48)</u>
Change in Net Position of Governmental Activities	<u><u>363,949.30</u></u>

The notes to the financial statements are an integral part of this statement.

GREGORY SCHOOL DISTRICT 26-4
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
As of June 30, 2020

	Enterprise Funds		
	Food Service Fund	Driver's Education/ Preschool Fund	Totals
ASSETS:			
Current Assets:			
Cash and Cash Equivalents	49,199.60	26,227.87	75,427.47
Accounts Receivable	6,040.15		6,040.15
Due from State Government	6,963.74		6,963.74
Inventories--Materials and Supplies	1,756.92		1,756.92
Inventories--Stores for Resale	4,063.86		4,063.86
Inventory of Donated Food	7,443.06		7,443.06
Total Current Assets	75,467.33	26,227.87	101,695.20
Noncurrent Assets:			
Capital Assets:			
Machinery and Equipment--Local Funds	84,263.50		84,263.50
Less: Accumulated Depreciation	(67,902.42)		(67,902.42)
Total Noncurrent Assets	16,361.08	0.00	16,361.08
TOTAL ASSETS	91,828.41	26,227.87	118,056.28
LIABILITIES:			
Current Liabilities:			
Accounts Payable	8,477.84	325.96	8,803.80
Payroll Deductions and Withholdings and Employer Matching Payable	8,518.63		8,518.63
TOTAL LIABILITIES	16,996.47	325.96	17,322.43
NET POSITION:			
Net Investment in Capital Assets	16,361.08		16,361.08
Unrestricted Net Position	58,470.86	25,901.91	84,372.77
TOTAL NET POSITION	74,831.94	25,901.91	100,733.85

The notes to the financial statements are an integral part of this statement.

GREGORY SCHOOL DISTRICT NO. 26-4
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
For the Year Ended June 30, 2020

	Enterprise Service		Totals
	Food Service Fund	Driver's Education/Preschool Fund	
Operating Revenue:			
Food Sales:			
Students	61,339.54		61,339.54
Adults	14,559.15		14,559.15
Other Charges for Goods and Services:			
Food Service	818.90		818.90
Preschool Fees		19,073.87	19,073.87
Total Operating Revenue	76,717.59	19,073.87	95,791.46
Operating Expenses:			
Food Service:			
Salaries	65,043.23		65,043.23
Employee Benefits	24,881.65		24,881.65
Supplies	8,723.85		8,723.85
Cost of Sales - Purchased	91,817.10		91,817.10
Cost of Sales - Donated	21,984.32		21,984.32
Depreciation	4,256.30		4,256.30
Driver's Education		325.96	325.96
Preschool Services		13,691.02	13,691.02
Total Operating Expenses	216,706.45	14,016.98	230,723.43
Operating Income (Loss)	(139,988.86)	5,056.89	(134,931.97)
Nonoperating Revenue (Expense):			
State Grants	837.27		837.27
Federal Grants	143,600.71		143,600.71
Donated Food	22,009.30		22,009.30
Total Nonoperating Revenue (Expense)	166,447.28	0.00	166,447.28
Change in Net Position	26,458.42	5,056.89	31,515.31
Net Position - Beginning	48,373.52	20,845.02	69,218.54
NET POSITION - ENDING	74,831.94	25,901.91	100,733.85

The notes to the financial statements are an integral part of this statement.

GREGORY SCHOOL DISTRICT NO. 26-4
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended June 30, 2020

	Enterprise Fund		
	Food Service Fund	Driver's Education/ Preschool Fund	Totals
Cash Flows from Operating Activities:			
Cash Receipts from Customers	70,677.44	19,073.87	89,751.31
Cash Payments to Employees for Services	(89,578.62)	(13,520.76)	(103,099.38)
Cash Payments to Suppliers for Goods or Services	(105,002.98)	(185.26)	(105,188.24)
Net Cash Provided (Used) by Operating Activities	<u>(123,904.16)</u>	<u>5,367.85</u>	<u>(118,536.31)</u>
Cash Flows from Noncapital Financing Activities:			
Operating Grants	143,111.68		143,111.68
Net Cash Provided (Used) from Noncapital Financing Activities	<u>143,111.68</u>	<u>0.00</u>	<u>143,111.68</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>19,207.52</u>	<u>5,367.85</u>	<u>24,575.37</u>
Cash and Cash Equivalents at Beginning of Year	<u>29,992.08</u>	<u>20,860.02</u>	<u>50,852.10</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>49,199.60</u>	<u>26,227.87</u>	<u>75,427.47</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:			
Operating Income (Loss)	<u>(139,988.86)</u>	<u>5,056.89</u>	<u>(134,931.97)</u>
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:			
Depreciation Expense	4,256.30		4,256.30
Value of Donated Commodities Used	21,984.32		21,984.32
(Increase) decrease in Accounts Receivable	(6,040.15)		(6,040.15)
(Increase) decrease in Inventories	(1,725.28)		(1,725.28)
(Decrease) increase in Accounts and Other Payables	(2,736.75)	310.96	(2,425.79)
(Decrease) increase in Accrued Wages Payable	346.26		346.26
Net Cash Provided (Used) by Operating Activities	<u>(123,904.16)</u>	<u>5,367.85</u>	<u>(118,536.31)</u>
Noncash Investing, Capital and Financing Activities:			
Value of Commodities Received	<u>22,009.30</u>		<u>22,009.30</u>

The notes to the financial statements are an integral part of this statement.

GREGORY SCHOOL DISTRICT NO. 26-4
STATEMENT OF NET POSITION
FIDUCIARY FUNDS
As of June 30, 2020

	<u>Private-Purpose Trust Funds</u>	<u>Agency Funds</u>
ASSETS:		
Cash and Cash Equivalents	89,455.63	97,116.77
Investments in Certificates of Deposit	42,907.61	
TOTAL ASSETS	132,363.24	97,116.77
LIABILITIES:		
Amounts Held for Others		97,116.77
TOTAL LIABILITIES	0.00	97,116.77
NET POSITION		
Held in Trust for Scholarships	132,363.24	
TOTAL NET POSITION	132,363.24	

The notes to the financial statements are an integral part of this statement.

GREGORY SCHOOL DISTRICT NO. 26-4
STATEMENT OF CHANGES IN NET POSITION
FIDUCIARY FUNDS
For the Year Ended June 30, 2020

	Private Purpose Trust Funds
ADDITIONS:	
Earnings from Deposits and Investments	68.90
Other Additions	1,501.81
Total Additions	1,570.71
DEDUCTIONS:	
Trust Deductions for Scholarships	2,921.00
Total Deductions	2,921.00
Change in Net Position	(1,350.29)
Net Position - Beginning	133,713.53
NET POSITION - ENDING	132,363.24

The notes to the financial statements are an integral part of this statement.

NOTES TO THE FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the School District conform to generally accepted accounting principles applicable to government entities in the United States of America.

a. Financial Reporting Entity:

The reporting entity of Gregory School District No. 26-4 (School District) consists of the primary government (which includes all of the funds, organizations, institutions, agencies, departments, and offices that make up the legal entity, plus those funds for which the primary government has a fiduciary responsibility, even though those fiduciary funds, may represent organizations that do not meet the criteria for inclusion in the financial reporting entity); those organizations for which the primary government is financially accountable; and other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the financial reporting entity's financial statements to be misleading or incomplete.

The School District participates in the Mid-Central Educational Cooperative with twelve other school districts and the Core Educational Cooperative with eleven other school districts. See detailed note entitled "Joint Ventures" for specific disclosures. Joint ventures do not meet the criteria for inclusion in the financial reporting entity as a component unit, but are discussed in these notes because of the nature of their relationship with the School District.

b. Basis of Presentation:

Government-wide Financial Statements:

The Statement of Net Position and Statement of Activities display information about the reporting entity as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

The Statement of Net Position reports all financial and capital resources, in a net position form (assets plus deferred outflows minus liabilities plus deferred inflows equal net position). Net position are displayed in three components, as applicable, invested in capital assets net of related debt, restricted (distinguishing between major categories of restrictions), and unrestricted.

The Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the School District and for each function of the School District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by recipients of goods and services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

Fund Financial Statements:

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the School District or it meets the following criteria:

1. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type, and
2. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least five percent of the corresponding total for all governmental and enterprise funds combined, or
3. Management has elected to classify one or more governmental or enterprise funds as major for consistency in reporting from year to year, or because of public interest in the fund's operations.

The funds of the School District financial reporting entity are described below within their respective fund types:

Governmental Funds:

General Fund – A fund established by South Dakota Codified Laws (SDCL) 13-16-3 to meet all the general operational costs of the school district, excluding capital outlay fund and special education fund expenditures. The General Fund is always a major fund.

Special Revenue Fund Types – special revenue funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

Capital Outlay Fund – A fund established by SDCL 13-16-6 to meet expenditures which result in the lease of, acquisition of or additions to real property, plant or equipment, textbooks and instructional software. This fund is financed by property taxes. This is a major fund.

Special Education Fund – A fund established by SDCL 13-37-16 to pay the costs for the special education of all children in need of special assistance and prolonged assistance who reside within the district. This fund is financed by grants and property taxes. This is a major fund.

Debt Service Fund Types – debt service funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

The QZAB Bond # 3 Debt Service Fund – A fund established by SDCL 13-16-13 to account for the bond escrow payments to be used for the payment of principal on Qualified Zone Academy Bonds. This is a major fund.

The QZAB Bond # 4 Debt Service Fund – A fund established by SDCL 13-16-13 to account for the bond escrow payments to be used for the payment of principal on Qualified Zone Academy Bonds. This is a major fund.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

Proprietary Funds:

Enterprise Funds – Enterprise funds may be used to report any activity for which a fee is charged to external users for goods or services. Activities are required to be reported as enterprise funds if any one of the following criteria is met.

- a. The activity is financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity. Debt that is secured by a pledge of net revenues from fees and charges and the full faith and credit of a related primary government or component unit—even if that government is not expected to make any payments—is not payable solely from fees and charges of the activity. (Some debt may be secured, in part, by a portion of its own proceeds but should be considered as payable "solely" from the revenues of the activity.)
- b. Laws or regulations require that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues.
- c. The pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

Food Service Fund – A fund used to record financial transactions related to food service operations. This fund is financed by user charges and grants. This is a major fund.

Driver's Education/Preschool Fund – A fund used to record financial transactions related to driver's education and preschool. This fund is financed by user charges. This is a major fund.

Fiduciary Funds:

Fiduciary funds are never considered to be major funds.

Private-Purpose Trust Fund Types – private-purpose trust funds are used to account for all other trust arrangements under which principal and income benefit individuals, private organizations, or other governments. The School District maintains only the following private-purpose trust funds:

Scholarship funds for the benefit of students.

Agency Fund Types – agency funds are used to account for resources held by the School District in a purely custodial capacity (assets equal liabilities). Since agency funds are custodial in nature they do not involve the measurement of results of operations. The School District maintains agency funds for the following purposes:

Funds for student activities and organizations in the School District and teacher cafeteria plans.

c. Measurement Focus and Basis of Accounting:

Measurement focus is a term used to describe "how" transactions are recorded within the various financial statements. Basis of accounting refers to "when" revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

Measurement Focus:**Government-wide Financial Statements:**

In the government-wide Statement of Net Position and Statement of Activities, both governmental and business-type activities are presented using the economic resources measurement focus, applied on the accrual basis of accounting.

Fund Financial Statements:

In the fund financial statements, the "current financial resources" measurement focus and the modified accrual basis of accounting are applied to governmental fund types, while the "economic resources" measurement focus and the accrual basis of accounting are applied to the proprietary and fiduciary fund types.

Basis of Accounting:**Government-wide Financial Statements:**

In the government-wide Statement of Net Position and Statement of Activities, governmental and business-type activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues and related assets generally are recorded when earned (usually when the right to receive cash vests); and, expenses and related liabilities are recorded when an obligation is incurred (usually when the obligation to pay cash in the future vests).

Fund Financial Statements:

All governmental funds are accounted for using the modified accrual basis of accounting. Their revenues, including property taxes, generally are recognized when they become measurable and available. "Available" means resources are collected or to be collected soon enough after the end of the fiscal year that they can be used to pay all the bills of the current period. The accrual period does not exceed one bill-paying cycle, and for the Gregory School District No. 26-4, the length of that cycle is 60 days. The revenues which are accrued at June 30, 2020 are grants from the State of South Dakota and utility taxes.

Under the modified accrual basis of accounting, receivables may be measurable but not available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Unavailable revenues, where asset recognition criteria have been met, but for which revenue recognition criteria have not been met, are reported as a deferred inflow of resources.

Expenditures generally are recognized when the related fund liability is incurred. Exceptions to this general rule include principal and interest on general long-term debt which are recognized when due.

All proprietary funds and fiduciary fund types are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

d. Deposits and Investments:

For the purpose of financial reporting, "cash and cash equivalents" includes all demand and savings accounts and certificates of deposit or short-term investments with a term to maturity at date of acquisition of three months or less. Investments in open-end mutual fund shares, or similar investments in external investment pools, are also considered to be cash equivalents.

Investments classified in the financial statements consists entirely of certificates of deposit whose term to maturity at date of acquisition exceeds three months, and/or those types of investment authorized by South Dakota Codified Law (SDCL) 4-5-6.

e. Capital Assets:

Capital assets include land, buildings, machinery and equipment, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period.

The accounting treatment over capital assets depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

Government-Wide Statements

All capital assets are valued at historical cost. Donated capital assets are valued at their estimated acquisition value on the date donated.

Interest costs incurred during the construction of general capital assets are not capitalized along with other capital asset costs.

The total June 30, 2020 balance of capital assets for governmental activities and business-type activities are all valued at original costs.

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the government-wide Statement of Activities, with net capital assets reflected in the Statement of Net Position. Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation methods, and estimated useful lives of capital assets reported in the government-wide statements and proprietary funds are as follows:

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Land	\$ 0.00	----N/A----	-----N/A-----
Improvements	\$ 5,000.00	Straight-line	10-25 yrs.
Buildings	\$ 5,000.00	Straight-line	50-100 yrs.
Machinery & Equipment	\$ 5,000.00	Straight-line	10-15 yrs.
Food Service Equipment	\$ 1,000.00	Straight-line	12 yrs.

Land is an inexhaustible capital asset and is not depreciated.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

Fund Financial Statements

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital expenditures of the governmental fund upon acquisition. Capital assets used in proprietary fund operations are accounted for on the accrual basis, the same as in the government-wide statements.

f. Long-Term Liabilities:

The accounting treatment of long-term liabilities depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide statements.

All long-term liabilities to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term liabilities primarily consist of South Dakota School District Benefits Fund insurance deficit, compensated absences, limited tax general obligation certificates payable and QZAB loans.

In the fund financial statements, debt proceeds are reported as revenues (other financing sources), while payments of principal and interest are reported as expenditures when they become due. The accounting for proprietary fund long-term debt is on the accrual basis, the same in the fund statements as in the government-wide statements.

g. Program Revenues:

In the Government-wide Statement of Activities, reported program revenues derive directly from the program itself or from parties other than the School District's taxpayers or citizenry, as a whole. Program revenues are classified into three categories, as follows:

1. Charges for services – These arise from charges to customers, applications, or others who purchase, use, or directly benefit from the goods, services, or privileges provided, or are otherwise directly affected by the services.
2. Program-specific operating grants and contributions – These arise from mandatory and voluntary non-exchange transactions with other governments, organizations, or individuals that are restricted for use in a particular program.
3. Program-specific capital grants and contributions – These arise from mandatory and voluntary non-exchange transactions with other governments, organizations, or individuals that are restricted for the acquisition of capital assets for use in a particular program.

h. Proprietary Funds Revenue and Expense Classifications:

In the proprietary fund's Statement of Activities, revenues and expenses are classified in a manner consistent with how they are classified in the Statement of Cash Flows. That is, transactions for which related cash flows are reported as capital and related financing activities, non-capital financing activities, or investing activities are not reported as components of operating revenues and expenses.

i. Cash and Cash Equivalents:

The School District pools its cash resources for depositing and investing purposes. Accordingly, the enterprise fund has access to its cash resources on demand. Accordingly, all reported enterprise fund

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

deposit and investment balances are considered to be cash equivalents for the purpose of the Statement of Cash Flows.

j. Equity Classifications:

Government-wide Statements:

Equity is classified as net position and is displayed in three components.

1. Net Investment in capital assets – Consists of capital assets, including restricted capital assets, net of accumulated depreciation (if applicable) and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
2. Restricted net position – Consists of net position with constraints placed on their use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
3. Unrestricted net position – All other net position that does not meet the definition of "restricted" or "net investment in capital assets".

Fund Financial Statements:

Governmental fund equity is classified as fund balance, and is distinguished between Nonspendable, Restricted, Committed, Assigned or Unassigned components. Proprietary fund equity is classified the same as in the government-wide financial statements. Fiduciary fund equity (except for Agency Funds, which have no fund equity) is reported as net position held in trust for other purposes.

k. Application of Net Position:

It is the School District's policy to first use restricted net position, prior to the use of unrestricted net position, when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

l. Fund Balance Classification Policies and Procedures:

In accordance with Government Accounting Standards Board (GASB) No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, the School District classifies governmental fund balances as follows:

- Nonspendable – includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.
- Restricted – includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.
- Committed – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end.
- Assigned – includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund Balance may be assigned by the Business Manager.

See Independent Auditor's Report.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

- Unassigned – includes positive fund balance within the General Fund which has not been classified within the above mentioned categories and negative fund balances in other governmental funds.

The School District uses restricted/committed amounts first when both restricted and unrestricted fund balance is available unless there are legal documents/contracts that prohibit doing this, such as a grant agreement requiring dollar for dollar spending. Additionally, the School District would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

The School District does not have a formal minimum fund balance policy.

The purpose of each major special revenue fund and revenue source is listed below:

<u>Major Special Revenue Fund:</u>	<u>Revenue Source:</u>
Capital Outlay	Property Taxes
Special Education	Property Taxes and Grants

m. Pensions:

For purposes of measuring the net pension liability (asset), deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense (revenue), information about the fiduciary net position of the South Dakota Retirement System (SDRS) and additions to/deletions from SDRS's fiduciary net position have been determined on the same basis as they are reported by SDRS. School District contributions and net position liability (asset) are recognized on an accrual basis of accounting.

2. DEPOSITS AND INVESTMENTS CREDIT RISK, CONCENTRATIONS OF CREDIT RISK AND INTEREST RATE RISK

The School District follows the practice of aggregating the cash assets of various funds to maximize cash management efficiency and returns. Various restrictions on deposits and investments are imposed by statutes. These restrictions are summarized as follows:

Deposits – The School District's deposits are made in qualified public depositories as defined by SDCL 4-6A-1, 13-16-15, 13-16-15.1 and 13-16-18.1. Qualified depositories are required by SDCL 4-6A-3 to maintain at all times, segregated from their other assets, eligible collateral having a value equal to at least 100 percent of the public deposit accounts which exceed deposit insurance such as the FDIC and NCUA. In lieu of pledging eligible securities, a qualified public depository may furnish irrevocable standby letters of credit issued by federal home loan banks accompanied by written evidence of that bank's public debt rating which may not be less than "AA" or a qualified public depository may furnish a corporate surety bond of a corporation authorized to do business in South Dakota.

Investments – In general, SDCL 4-5-6 permits school district funds to be invested only in (a) securities of the United States and securities guaranteed by the United States Government either directly or indirectly; or (b) repurchase agreements fully collateralized by securities described in (a) above; or in shares of an open-end, no-load fund administered by an investment company whose investments are in securities described in (a) above and repurchase agreements described in (b) above. Also, SDCL 4-5-9 requires investments to be in the physical custody of the political subdivision or may be deposited in a safekeeping account with any bank or trust company designated by the political subdivision as its fiscal agent.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

As of June 30, 2020, the School District did not have any investments. The investments reported in the financial statements consist of only certificates of deposit.

Credit Risk – State law limits eligible investments for the School District, as discussed above. The School District has no investment policy that would further limit its investment choices.

Custodial Credit Risk – Deposits – The risk that, in the event of a depository failure, the School District's deposits may not be returned to it. The School District does not have a deposit policy for custodial credit risk.

Concentration of Credit Risk – The School District places no limit on the amount that may be invested in any one issuer.

Interest Rate Risk – The School District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Assignment of Investment Income – State law allows income from deposits and investments to be credited to either the General Fund or the fund making the investment. The School District's policy is to credit all income from deposits and investments to the fund making the investment.

3. RESTRICTED CASH AND INVESTMENTS:

Assets restricted to use for a specific purpose through segregation of balances in separate accounts are as follows:

<u>Amount:</u>	<u>Purpose:</u>
\$432,920.46	For Debt Service, by debt covenants

4. RECEIVABLES AND PAYABLES

Receivables and payables are not aggregated in these financial statements. The School District expects all receivables to be collected within one year.

5. INVENTORY

Inventory held for consumption is stated at cost. Inventory for resale is stated at the lower of cost or market. The cost valuation method is first-in, first-out. Donated commodities are valued at estimated market value based on the USDA price list at date of receipt.

In the Government-wide financial statements, inventory items are initially recorded as assets and charged to expense in the various functions of government as they are consumed.

In the fund financial statements, inventories in the General Fund, special revenue funds, and proprietary funds consist of expendable supplies held for consumption. The cost is recorded as an expenditure at the time individual inventory items are purchased in the general and special revenue funds. The cost is recorded as an expenditure at the time individual inventory items are consumed in the proprietary funds. Reported inventories are equally offset by a nonspendable fund balance, which indicates that they do not constitute "available spendable resources" even though they are a component of net current assets. No material supply inventories exist at June 30, 2020 in the General and special revenue funds.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

6. PROPERTY TAXES

Property taxes are levied on or before each October 1, attach as an enforceable lien on property as of the following January 1, and are payable in two installments on or before the following April 30 and October 31. The county bills and collects the School District's taxes and remits them to the School District.

School District property tax revenues are recognized to the extent that they are used to finance each year's appropriations. Revenue related to current year property taxes receivable which is not intended to be used to finance the current year's appropriations and therefore are not susceptible to accrual has been reported as deferred inflows of resources in both the fund financial statements and the government-wide financial statements. Additionally, in the fund financial statements, revenue from property taxes may be limited by any amount not collected during the current fiscal period or within the "availability period."

7. CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets for the year ended June 30, 2020, is as follows:

	Balance 07/01/2019	Increases	Decreases	Balance 06/30/2020
Primary Government:				
Governmental Activities:				
Capital Assets, not being depreciated:				
Land	13,500.00			13,500.00
Total, not being depreciated	<u>13,500.00</u>	<u>0.00</u>	<u>0.00</u>	<u>13,500.00</u>
Capital Assets, being depreciated:				
Improvements	816,079.29			816,079.29
Buildings	4,743,602.39			4,743,602.39
Machinery & Equipment	744,115.04	165,979.68	(22,892.48)	887,202.24
Total, being depreciated	<u>6,303,796.72</u>	<u>165,979.68</u>	<u>(22,892.48)</u>	<u>6,446,883.92</u>
Less Accumulated Depreciation for:				
Improvements	(148,153.02)	(24,849.86)		(173,002.88)
Buildings	(844,843.87)	(57,007.81)		(901,851.68)
Machinery & Equipment	(380,143.91)	(60,785.98)	22,892.48	(418,037.41)
Total Accumulated Depreciation	<u>(1,373,140.80)</u>	<u>(142,643.65)</u>	<u>22,892.48</u>	<u>(1,492,891.97)</u>
Total Capital Assets, being depreciated, net	<u>4,930,655.92</u>	<u>23,336.03</u>	<u>0.00</u>	<u>4,953,991.95</u>
Governmental Activity Capital Assets, Net	<u>4,944,155.92</u>	<u>23,336.03</u>	<u>0.00</u>	<u>4,967,491.95</u>

Depreciation expense was charged to functions as follows:

Governmental Activities:	
Instruction	56,375.55
Support Services	70,079.74
Co-curricular Activities	16,188.36
Total Depreciation Expense - Governmental Activities	<u>142,643.65</u>

See Independent Auditor's Report.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

	Balance 07/01/2019	Increases	Decreases	Balance 06/30/2020
Business-Type Activities:				
Capital Assets, being depreciated:				
Machinery & Equipment	92,659.61		(8,396.11)	84,263.50
Less Accumulated Depreciation for:				
Machinery & Equipment	(72,042.23)	(4,256.30)	8,396.11	(67,902.42)
Total Capital Assets, being depreciated, net	20,617.38	(4,256.30)	0.00	16,361.08
Business-Type Activity Capital Assets, Net	<u>20,617.38</u>	<u>(4,256.30)</u>	<u>0.00</u>	<u>16,361.08</u>

Depreciation expense was charged to functions as follows:

Business-Type Activities:	
Food Services	4,256.30
Total Depreciation Expense - Business-Type Activities	<u>4,256.30</u>

8. LONG-TERM LIABILITIES

A summary of the changes in long-term liabilities for the year ended June 30, 2020 is as follows:

	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Primary Government:					
Governmental Activities:					
Qualified Zone Academy Bond (QZAB) #3	250,000.00			250,000.00	0.00
Qualified Zone Academy Bond (QZAB) #4	426,000.00			426,000.00	0.00
South Dakota School District Benefit Fund Limited Tax General Obligation Refunding Certificates - Series 2015	82,330.00		40,860.00	41,470.00	41,470.00
Total Debt	730,000.00		100,000.00	630,000.00	100,000.00
Accrued Compensated Absences - Governmental Funds	1,488,330.00	0.00	140,860.00	1,347,470.00	141,470.00
Total Governmental Activities	47,916.36	8,558.18	8,755.99	47,718.55	10,000.00
TOTAL PRIMARY GOVERNMENT	<u>1,536,246.36</u>	<u>8,558.18</u>	<u>149,615.99</u>	<u>1,395,188.55</u>	<u>151,470.00</u>

Compensated absences for governmental activities typically have been liquidated from the General Fund and Special Education Fund.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

Liabilities Payable at June 30, 2020, is comprised of the following:

PRIMARY GOVERNMENT

Governmental Activities:

Qualified Zone Academy Bonds #3:

QZAB Bonds for School Renovation; Maturity Date June 29, 2021; Non-Interest Bearing Note; Payable from QZAB Debt Service # 3 Fund	\$ 250,000.00
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Qualified Zone Academy Bonds #4:

QZAB Bonds for School Renovation; Maturity Date October 18, 2027; Non-Interest Bearing Note; Payable from QZAB Debt Service # 4 Fund	\$ 426,000.00
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Limited Tax General Obligation Refunding Certificates – Series 2015:

Certificates for Constructing 6 th through 12 th Grade Facilities; Maturity Date February 15, 2026; Fixed Interest Rate at 0.5% to 2.6%; Payable from Capital Outlay Fund	\$ 630,000.00
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Insurance Deficit Payable:

South Dakota School District Benefits Fund Deficit; Final Payment Due October 1, 2020; 0% Interest; Payable from General Fund	\$ 41,470.00
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Compensated Absences:

Accrued Sick Leave Payable Payment to be made by the fund that the payroll expenditures are charged to.	\$ 47,718.55
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NOTES TO THE FINANCIAL STATEMENTS
(Continued)

The annual debt service requirements to maturity for all debt outstanding, except for compensated absences, as of June 30, 2020 are as follows:

Annual Requirements to Maturity for Long-Term Debt
June 30, 2020

Year Ending June 30,	Qualified Zone Academy Bonds (QZAB) #3		Qualified Zone Academy Bonds (QZAB) #4		Limited Tax General Obligation Refunding Bonds Payable - Series 2015	
	Principal	Interest	Principal	Interest	Principal	Interest
2021	250,000.00				100,000.00	14,402.50
2022					100,000.00	12,402.50
2023					100,000.00	10,402.50
2024					105,000.00	8,152.50
2025					110,000.00	5,685.00
2026-2030			426,000.00		115,000.00	2,990.00
Totals	250,000.00	0.00	426,000.00	0.00	630,000.00	54,035.00

Year Ending June 30,	South Dakota School District Benefit Fund		TOTALS	
	Principal	Interest	Principal	Interest
2021	41,470.00	620.00	391,470.00	15,022.50
2022			100,000.00	12,402.50
2023			100,000.00	10,402.50
2024			105,000.00	8,152.50
2025			110,000.00	5,685.00
2026-2030			541,000.00	2,990.00
Totals	41,470.00	620.00	1,347,470.00	54,655.00

9. RESTRICTED NET POSITION

The following table shows the net position restricted for other purposes as shown on the Statement of Net Position:

Purpose	Restricted By:	Amount
Major Funds:		
Capital Outlay	Law	\$ 2,286,483.62
Special Education	Law	506,736.12
SDRS Pension	Governmental Auditing Standard	354,792.81
QZAB Debt Service	Debt Covenants	432,920.46
Total Restricted Net Position		\$ 3,580,933.01

See Independent Auditor's Report.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

10. INTERFUND TRANSFERS

Interfund transfers for the year ended June 30, 2020 were as follows:

	Transfers To:		
Transfers From:	QZAB Bond # 3 Fund	QZAB Bond # 4 Fund	Totals
Major Funds:			
Capital Outlay Fund	13,818.52	56,800.00	70,618.52
Totals	13,818.52	56,800.00	70,618.52

The School District typically budgets transfers to the QZAB Funds from the Capital Outlay Fund for future debt service payments.

11. DEFERRED INFLOWS AND DEFERRED OUTFLOWS OF RESOURCES

In addition to assets, the statement of financial position reports a separate section for deferred outflows of resources. Deferred outflows of resources represent consumption of net position that applies to a future period or periods. These items will not be recognized as an outflow of resources until the applicable future period.

In addition to liabilities, the statement of financial position reports a separate section for deferred inflows of resources. Deferred inflows of resources represent acquisitions of net position that applies to a future period or periods. These items will not be recognized as an inflow of resources until the applicable future period.

12. PENSION PLAN

Plan Information:

All employees, working more than 20 hours per week during the year, participate in the South Dakota Retirement System (SDRS), a cost sharing, multiple employer defined benefit pension plan administered by SDRS to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability, and survivor benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering and amending plan provisions are found in SDCL 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained at <http://www.sdrs.sd.gov/publications.aspx> or by writing to the SDRS, P.O. Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

Benefits Provided:

SDRS has three different classes of employees, Class A general members, Class B public safety and judicial members, and Class C Cement Plant Retirement Fund members.

Members that were hired before July 1, 2017, are Foundation members. Class A Foundation members and Class B Foundation members who retire after age 65 with three years of contributory service are entitled to an unreduced annual retirement benefit. An unreduced annual retirement benefit is also available after age 55 for Class A Foundation members where the sum of age and credited service is

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

equal to or greater than 85 or after age 55 for Class B Foundation judicial members where the sum of age and credited service is equal to or greater than 80. Class B Foundation public safety members can retire with an unreduced annual retirement benefit after age 55 with three years of contributory service. An unreduced annual retirement benefit is also available after age 45 for Class B Foundation safety members where the sum of age and credited service is equal to or greater than 75. All Foundation retirement benefits that do not meet the above criteria may be payable at a reduced level.

Members that were hired on/after July 1, 2017, are Generational members. Class A Generational members and Class B Generational judicial members who retire after age 67 with three years of contributory service are entitled to an unreduced annual retirement benefit. Class B Generational public safety members can retire with an unreduced annual retirement benefit after age 57 with three years of contributory service. At retirement, married Generational members may elect a single-life benefit, a 60 percent joint and survivor benefit, or a 100 percent joint and survivor benefit. All Generational retirement benefits that do not meet the above criteria may be payable at a reduced level. Generational members will also have a variable retirement account (VRA) established, in which they will receive up to 1.5 percent of compensation funded by part of the employer contribution. VRAs will receive investment earnings based on investment returns.

Legislation enacted in 2017 established the current COLA process. At each valuation date:

- Baseline actuarial accrued liabilities will be calculated assuming the COLA is equal to the long-term inflation assumption of 2.25%.
- If the fair value of assets is greater or equal to the baseline actuarial accrued liabilities, the COLA will be:
 - The increase in the 3rd quarter CPI-W, no less than 0.5% and no greater than 3.5%.
- If the fair value of assets is less than the baseline actuarial accrued liabilities, the COLA will be:
 - The increase in the 3rd quarter CPI-W, no less than 0.5% and no greater than a restricted maximum such that, that if the restricted maximum is assumed for future COLAs, the fair value of assets will be greater or equal to the accrued liabilities.

All benefits except those depending on the Member's Accumulated Contributions are annually increased by the Cost-of-Living Adjustment.

Contributions:

Per SDCL 3-12, contribution requirements of the active employees and the participating employers are established and may be amended by the SDRS Board. Covered employees are required by state statute to contribute the following percentages of their salary to the plan; Class A Members, 6.0% of salary; Class B Judicial Members, 9.0% of salary; and Class B Public Safety Members, 8.0% of salary. State statute also requires the employer to contribute an amount equal to the employee's contribution. The School District's share of contributions to the SDRS for the fiscal years ended June 30, 2020, 2019, and 2018 were \$135,708.77, \$134,213.37, and \$131,770.10, respectively, equal to the required contributions each year.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

Pension Liabilities (Assets), Pension Expense (Revenue), and Deferred Outflows of Resources and Deferred Inflows of Resources to Pensions:

At June 30, 2019, SDRS is 100.09% funded and accordingly has a net pension asset. The proportionate share of the components of the net pension asset of South Dakota Retirement System, for the School District as of the measurement period ending June 30, 2019 and reported by the School District as of June 30, 2020 are as follows:

Proportionate share of pension liability	\$ 13,112,355.49
Less proportionate share of net pension restricted for pension benefits	<u>\$ 13,123,505.61</u>
Proportionate share of net pension liability (asset)	<u>\$ (11,150.12)</u>

At June 30, 2020, the School District reported a liability (asset) of \$(11,150.12) for its proportionate share of the net pension liability (asset). The net pension liability (asset) was measured as of June 30, 2019 and the total pension liability (asset) used to calculate the net pension liability (asset) was based on a projection of the School District's share of contributions to the pension plan relative to the contributions of all participating entities. At June 30, 2019, the School District's proportion was 0.10521700%, which is an increase (decrease) of (0.0003266%) from its proportion measured as of June 30, 2018.

For the year ended June 30, 2020, the School District recognized pension expense (reduction of pension expense) of \$319,273.08. At June 30, 2020, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows Of Resources</u>	<u>Deferred Inflows Of Resources</u>
Difference between expected and actual experience.	\$ 43,737.57	\$ 5,046.74
Changes in assumption.	\$ 385,096.08	\$ 157,870.72
Net Difference between projected and actual earnings on pension plan investments.		\$ 64,233.82
Changes in proportion and difference between School district contributions and proportionate share of contributions.	\$ 11,488.67	\$ 5,237.12
School District contributions subsequent to the measurement date.	<u>\$ 135,708.77</u>	
TOTAL	<u>\$ 576,031.09</u>	<u>\$ 232,388.40</u>

See Independent Auditor's Report.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

\$135,708.77 reported as deferred outflow of resources related to pensions resulting from School District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense (revenue) as follows:

Year Ended	
June 30:	
2021	\$ 244,690.69
2022	\$ (34,345.13)
2023	\$ (23,963.82)
2024	<u>\$ 21,552.18</u>
TOTAL	<u>\$ 207,933.92</u>

Actuarial Assumptions:

The total pension liability (asset) in the June 30, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.25 percent
Salary Increases	Graded by years of service, from 6.50% at entry to 3.00% after 25 years of service
Discount Rate	6.50 percent net of plan investment expense
Future COLAs	1.88 percent

Mortality rates were based on 97% of the RP-2014 Mortality Table, projected generationally with Scale MP-2016, white collar rates for females and total dataset rates for males. Mortality rates for disabled members were based on the RP-2014 Disabled Retiree Mortality Table, adjusted to 2006 and projected generationally with Scale MP-2016.

The actuarial assumptions used in the June 30, 2019 valuation were based on the results of an actuarial experience study for the period of July 1, 2011 to June 30, 2016.

Investment portfolio management is the statutory responsibility of the South Dakota Investment Council (SDIC), which may utilize the services of external money managers for management of a portion of the portfolio. SDIC is governed by the Prudent Man Rule (i.e., the council should use the same degree of care as a prudent man). Current SDIC investment policies dictate limits on the percentage of assets invested in various types of vehicles (equities, fixed income securities, real estate, cash, private equity, etc.). The long-term expected rate of return on pension plan investments was determined using a method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2017 (see the discussion of the pension plan's investment policy) are summarized in the following table using geometric means:

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global Equity	58.0%	4.7%
Fixed Income	30.0%	1.7%
Real Estate	10.0%	4.3%
Cash	2.0%	0.9%
Total	<u>100%</u>	

Discount Rate:

The discount rate used to measure the total pension liability (asset) was 6.50%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that matching employer contributions will be made at rates equal to the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability (asset).

Sensitivity of liability (asset) to changes in the discount rate:

The following presents the School District's proportionate share of net pension liability (asset) calculated using the discount rate of 6.50 percent as well as what the School District's proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage point lower (5.50%) or 1-percentage point higher (7.50%) than the current rate:

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
School District's proportionate share of the net pension liability (asset)	\$1,850,701.83	\$(11,150.12)	\$(1,528,223.03)

Pension Plan Fiduciary Net Position:

Detailed information about the plan's fiduciary net position is available in the separately issued SDRS financial report.

13. JOINT VENTURES

The School District participates in the Mid-Central Cooperative, a cooperative service unit (co-op) formed for the purpose of providing equal educational opportunity services to the member school districts.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

The members of the co-op and their relative percentage participation in the co-op are as follows:

Armour School District No. 21-1	4.68%
Burke School District No. 26-2	6.03%
Colome Consolidated School District No. 59-3	6.45%
Corsica-Stickney School District No. 21-3	6.36%
Ethan School District No. 17-1	6.61%
Gregory School District No. 26-4	10.80%
Kimball School District No. 7-2	8.49%
Mt. Vernon School District No. 17-3	5.64%
Plankinton School District No. 1-1	9.55%
Platte-Geddes School District No. 11-5	13.40%
Wessington Springs School District No. 32-6	9.32%
White Lake School District No. 1-3	3.04%
Wolsey-Wessington School District No. 2-6	9.63%

The co-op's governing board is composed of two representatives from each member school district, who are one administrator of the school on the advisory board and one school board member on the governing board. The board is responsible for adopting the co-op's budget and setting service fees at a level adequate to fund the adopted budget.

The School District retains no equity in the net position of the co-op, but does have a responsibility to fund deficits of the co-op in proportion to the relative participation described above.

Audited financial information is not available for periods after June 30, 2015.

The School District participates in the Core Educational Cooperative, a cooperative service unit (Co-op) formed for the purpose of providing equal educational opportunity services to the member school districts.

The members of the Co-op and their relative percentage participation in the Co-op are as follows:

Armour School District No. 21-1	6.4%
Burke School District No. 26-2	7.8%
Colome Consolidated School District No. 59-3	6.3%
Corsica-Stickney School District No. 21-3	7.4%
Gregory School District No. 26-4	9.6%
Kimball School District No. 7-2	8.3%
Mt. Vernon School District No. 17-3	7.8%
Plankinton School District No. 1-1	11.2%
Platte-Geddes School District No. 11-5	9.6%
Wessington Springs School District No. 32-6	9.6%
White Lake School District No. 1-3	3.7%
Wolsey-Wessington School District No. 2-6	12.3%

See Independent Auditor's Report.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

The co-op's governing board is composed of two representatives from each member school district, who are one administrator of the school on the advisory board and one school board member on the governing board. The board is responsible for adopting the Co-op's budget and setting service fees at a level adequate to fund the adopted budget.

The School District retains no equity in the net position of the Co-op, but does have a responsibility to fund deficits of the Co-op in proportion to the relative participation described above.

Separate financial statements for this joint venture are available from the Core Educational Cooperative.

At June 30, 2020, this joint venture had total assets and deferred outflows of resources of \$1,298,326.86, total liabilities and deferred inflows of resources of \$353,300.47, and net position of \$945,026.39.

14. RISK MANAGEMENT

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the period ended June 30, 2020, the School District managed its risks as follows:

Employee Health Insurance:

The School District joined the South Dakota School District Health Benefits Fund. This is a public entity risk pool currently operating as common risk management and insurance program for South Dakota local government entities. The School District pays a monthly premium to the pool to provide health insurance coverage for its employees. The pool purchases reinsurance coverage with the premiums it receives from the members. The coverage also includes a \$2,000,000 lifetime maximum payment per person.

The School District does not carry additional health insurance coverage to pay claims in excess of this upper limit. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

Liability Insurance:

The School District purchases liability insurance for risks related to torts; theft or damage to property; and errors and omissions of public officials from a commercial insurance carrier. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

Worker's Compensation:

The School District purchases liability insurance for worker's compensation from a commercial carrier. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

Unemployment Benefits:

The School District has elected to be self-insured and retain all risk for liabilities resulting from claims for unemployment benefits.

The School District has Assigned Fund Balance in the General Fund in the amount of \$15,009.52 for the payment of future unemployment benefits.

During the year ended June 30, 2020, no claims for unemployment were paid. At June 30, 2020, no claims had been filed for unemployment benefits, and none are anticipated in the next fiscal year.

See Independent Auditor's Report.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

15. SIGNIFICANT CONTINGENCIES – LITIGATION

At June 30, 2020, the School District was not involved in any significant litigation.

16. SIGNIFICANT CONTINGENCIES – INSURANCE DEFICIT

The School District is a member of the South Dakota School District Benefits Fund (SDSDBF), which has been operating at a deficit for several years. The SDSDBF has assessed the School District for their share of the deficit, which has been determined to be \$162,250.00. The amount of \$41,470.00 is reflected in this report in the appropriate financial statements as a long-term liability.

17. SUBSEQUENT EVENTS

Management has evaluated whether any subsequent events have occurred through November 9, 2020, the date on which the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION
GREGORY SCHOOL DISTRICT NO. 26-4
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
GENERAL FUND
For the Year Ended June 30, 2020

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues:				
Revenue from Local Sources:				
Taxes:				
Ad Valorem Taxes	1,009,604.00	1,009,604.00	954,609.02	(54,994.98)
Prior Years' Ad Valorem Taxes	22,000.00	22,000.00	8,306.22	(13,693.78)
Utility Taxes	82,910.00	82,910.00	155,923.51	73,013.51
Penalties and Interest on Taxes	3,000.00	3,000.00	4,090.98	1,090.98
Earnings on Investments and Deposits	15,000.00	15,000.00	21,666.07	6,666.07
Cocurricular Activities:				
Admissions	20,000.00	20,000.00	24,739.00	4,739.00
Other Revenue from Local Sources:				
Rentals	1,900.00	1,900.00	1,255.00	(645.00)
Services Provided Other School Districts	4,000.00	4,000.00	0.00	(4,000.00)
Charges for Services	20,845.00	20,845.00	21,251.43	406.43
Day Care Services	9,000.00	9,000.00	5,400.00	(3,600.00)
Other	19,500.00	19,500.00	19,176.87	(323.13)
Revenue from Intermediate Sources:				
County Sources:				
County Apportionment	18,000.00	18,000.00	14,623.29	(3,376.71)
Revenue in Lieu of Taxes	1,000.00	1,000.00	0.00	(1,000.00)
Revenue from State Sources:				
Grants-in-Aid:				
Unrestricted Grants-in-Aid	1,589,586.00	1,589,586.00	1,649,027.33	59,441.33
Restricted Grants-in-Aid	0.00	0.00	2,063.05	2,063.05
Revenue from Federal Sources:				
Grants-in-Aid:				
Restricted Grants-in-Aid Received from Federal Government Through the State	179,161.00	195,538.00	182,593.56	(12,944.44)
Total Revenue	2,995,506.00	3,011,883.00	3,064,725.33	52,842.33
Expenditures:				
Instruction:				
Regular Programs:				
Elementary	777,643.00	777,643.00	769,707.53	7,935.47
Middle/Junior High	280,469.00	280,469.00	278,773.86	1,695.14
High School	639,888.00	639,888.00	671,790.57	(31,902.57)
Special Programs:				
Educationally Deprived	188,736.00	205,113.00	178,355.82	26,757.18

REQUIRED SUPPLEMENTARY INFORMATION
GREGORY SCHOOL DISTRICT NO. 26-4
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
GENERAL FUND
For the Year Ended June 30, 2020

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget - Positive (Negative)
	Original	Final		
Expenditures (continued):				
Support Services:				
Students:				
Guidance	61,555.00	61,555.00	60,809.64	745.36
Health	1,500.00	1,500.00	728.50	771.50
Instructional Staff:				
Improvement of Instruction	30,722.00	30,722.00	21,620.42	9,101.58
Educational Media	70,024.00	70,024.00	68,586.32	1,437.68
General Administration:				
Board of Education	43,756.00	43,756.00	28,071.47	15,684.53
Executive Administration	124,607.00	124,607.00	123,724.94	882.06
School Administration:				
Office of the Principal	155,957.00	155,957.00	150,605.85	5,351.15
Other	856.00	856.00	1,029.03	(173.03)
Business:				
Fiscal Services	98,493.00	98,493.00	90,768.53	7,724.47
Operation and Maintenance of Plant	408,816.00	408,816.00	324,228.21	84,587.79
Student Transportation Services	131,555.00	131,555.00	74,695.81	56,859.19
Food Services	13,729.00	13,729.00	11,182.56	2,546.44
 Debt Services	 40,800.00	 40,800.00	 0.00	 40,800.00
 Cocurricular Activities:				
Male Activities	79,554.00	79,554.00	67,330.93	12,223.07
Female Activities	65,498.00	65,498.00	56,345.46	9,152.54
Transportation	11,365.00	11,365.00	5,837.97	5,527.03
Combined Activities	130,992.00	130,992.00	96,185.71	34,806.29
 Total Expenditures	 3,356,515.00	 3,372,892.00	 3,080,379.13	 292,512.87
 Excess of Revenue Over (Under) Expenditures	 (361,009.00)	 (361,009.00)	 (15,653.80)	 345,355.20
 Other Financing Sources (Uses):				
Transfers In	361,009.00	361,009.00	0.00	(361,009.00)
Sale of Surplus Property	0.00	0.00	1,731.00	1,731.00
Total Other Financing Sources (Uses)	361,009.00	361,009.00	1,731.00	(359,278.00)
 Net Change in Fund Balances	 0.00	 0.00	 (13,922.80)	 (13,922.80)
 Fund Balance - Beginning	 823,564.94	 823,564.94	 823,564.94	 0.00
 FUND BALANCE - ENDING	 823,564.94	 823,564.94	 809,642.14	 (13,922.80)

REQUIRED SUPPLEMENTARY INFORMATION
GREGORY SCHOOL DISTRICT NO. 26-4
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
CAPITAL OUTLAY FUND
For the Year Ended June 30, 2020

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u> (Budgetary Basis)	<u>Variance with</u> <u>Final Budget -</u> <u>Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Revenue from Local Sources:				
Taxes:				
Ad Valorem Taxes	826,958.00	826,958.00	815,019.78	(11,938.22)
Prior Years' Ad Valorem Taxes	0.00	0.00	5,723.98	5,723.98
Penalties and Interest on Taxes	0.00	0.00	2,859.03	2,859.03
Other Revenue from Local Sources:				
Other	0.00	0.00	9,161.63	9,161.63
Total Revenue	826,958.00	826,958.00	832,764.42	5,806.42
Expenditures:				
Instruction:				
Regular Programs:				
Elementary	76,000.00	76,000.00	29,043.27	46,956.73
High School	74,000.00	74,000.00	47,048.66	26,951.34
Support Services:				
Instructional Staff:				
Educational Media	5,000.00	5,000.00	4,968.68	31.32
Business:				
Facilities Acquisition and Construction	15,000.00	15,000.00	13,889.66	1,110.34
Operation and Maintenance of Plant	197,749.00	197,749.00	15,159.92	182,589.08
Student Transportation Services	126,015.00	176,015.00	154,712.00	21,303.00
Debt Services	288,194.00	288,194.00	116,902.50	171,291.50
Cocurricular Activities:				
Combined Activities	45,000.00	45,000.00	15,786.03	29,213.97
Total Expenditures	826,958.00	876,958.00	397,510.72	479,447.28
Excess of Revenue Over (Under)				
Expenditures	0.00	(50,000.00)	435,253.70	485,253.70
Other Financing Sources (Uses):				
Transfers Out	0.00	0.00	(70,618.52)	(70,618.52)
Total Other Financing Sources(Uses)	0.00	0.00	(70,618.52)	(70,618.52)
Net Change in Fund Balances	0.00	(50,000.00)	364,635.18	414,635.18
Fund Balance - Beginning	1,921,848.44	1,921,848.44	1,921,848.44	0.00
FUND BALANCE - ENDING	1,921,848.44	1,871,848.44	2,286,483.62	414,635.18

REQUIRED SUPPLEMENTARY INFORMATION
GREGORY SCHOOL DISTRICT NO. 26-4
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
SPECIAL EDUCATION FUND
For the Year Ended June 30, 2020

	<u>Budgeted Amounts</u>		<u>Actual Amounts (Budgetary Basis)</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Revenue from Local Sources:				
Taxes:				
Ad Valorem Taxes	481,224.00	481,224.00	509,113.03	27,889.03
Prior Years' Ad Valorem Taxes	5,519.00	5,519.00	3,583.09	(1,935.91)
Penalties and Interest on Taxes	0.00	0.00	1,651.34	1,651.34
Other Revenue from Local Sources:				
Charges for Services	2,000.00	2,000.00	1,361.00	(639.00)
Other	0.00	0.00	323.00	323.00
Revenue from Federal Sources:				
Grants-in-Aid:				
Restricted Grants-in-Aid Received from Federal Government Through the State	99,034.00	99,034.00	96,134.00	(2,900.00)
Total Revenue	587,777.00	587,777.00	612,165.46	24,388.46
Expenditures:				
Instruction:				
Special Programs:				
Programs for Special Education	432,758.00	432,758.00	347,987.52	84,770.48
Support Services:				
Students:				
Guidance	6,959.00	6,959.00	6,847.68	111.32
Psychological	38,686.00	38,686.00	38,070.48	615.52
Speech Pathology	73,039.00	73,039.00	72,433.00	606.00
Student Therapy Services	26,264.00	26,264.00	25,991.45	272.55
Special Education:				
Administrative Costs	28,955.00	28,955.00	28,494.48	460.52
Total Expenditures	606,661.00	606,661.00	519,824.61	86,836.39
Excess of Revenue Over (Under) Expenditures	(18,884.00)	(18,884.00)	92,340.85	111,224.85
Other Financing Sources (Uses):				
Transfers In	18,884.00	18,884.00	0.00	(18,884.00)
Total Other Financing Sources (Uses)	18,884.00	18,884.00	0.00	(18,884.00)
Net Change in Fund Balances	0.00	0.00	92,340.85	92,340.85
Fund Balance - Beginning	414,395.27	414,395.27	414,395.27	0.00
FUND BALANCE - ENDING	414,395.27	414,395.27	506,736.12	92,340.85

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2020

Schedules of Budgetary Comparisons for the General Fund
and for each major Special Revenue Fund with a legally required budget.

Note 1. Budgets and Budgetary Accounting

The School District followed these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to the first regular meeting in May of each year the school board causes to be prepared a proposed budget for the next fiscal year according to the budgetary standards prescribed by the Auditor General.
2. The proposed budget is considered by the school board at the first regular meeting held in the month of May of each year.
3. The proposed budget is published for public review no later than July 15 each year.
4. Public hearings are held to solicit taxpayer input prior to the approval of the budget.
5. Before October 1 of each year, the school board must approve the budget for the ensuing fiscal year for each fund, except trust and agency funds.
6. After adoption by the school board, the operating budget is legally binding and actual expenditures of each fund cannot exceed the amounts budgeted, except as indicated by number 8.
7. A line item for contingencies may be included in the annual budget. Such a line item may not exceed 5 percent of the total school district budget and may be transferred by resolution of the school board to any other budget category, except for capital outlay, that is deemed insufficient during the year.
8. If it is determined during the year that sufficient amounts have not been budgeted, state statute allows adoption of supplemental budgets when moneys are available to increase legal spending authority.
9. Unexpended appropriations lapse at year-end unless encumbered by resolution of the school board.
10. Formal budgetary integration is employed as a management control device during the year for the General Fund and special revenue funds.
11. Budgets for the General Fund and special revenue funds are adopted on a basis consistent with generally accepted accounting principles (GAAP).

Note 2. GAAP/Budgetary Accounting Basis Differences

The financial statements prepared in conformity with USGAAP present capital outlay expenditure information in a separate category of expenditures. Under the budgetary basis of accounting, capital outlay expenditures are reported within the function to which they relate. For example, the purchase of a new school bus would be reported as a capital outlay expenditure on the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances, however in the Budgetary RSI Schedule, the purchase of a school bus would be reported as an expenditure of the Support Services-Business/Student Transportation function of government, along with all other current Student Transportation related expenditures.

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE SCHOOL DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY (ASSET)

South Dakota Retirement System

Last 6 Fiscal Years *

	2020	2019	2018	2017	2016	2015
District's proportion of the net pension liability/asset	0.1052170%	0.1055436%	0.1083254%	0.1046527%	0.1024109%	0.1059619%
District's proportionate share of net pension liability (asset)	\$ (11,150)	\$ (2,462)	\$ (9,831)	\$ 353,507	\$ (434,354)	\$ (763,412)
District's covered-employee payroll	\$ 2,237,127	\$ 2,196,165	\$ 2,200,947	\$ 1,954,157	\$ 1,869,732	\$ 1,852,979
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	0.50%	0.11%	0.45%	18.09%	23.23%	41.20%
Plan fiduciary net position as a percentage of the total pension liability (asset)	100.09%	100.02%	100.10%	96.89%	104.10%	107.30%

* The amounts presented for each fiscal year were determined as of the measurement date of the collective net pension liability (asset) which is 06/30 of the previous fiscal year.

**Notes to Required Supplementary Information
for the Year Ended June 30, 2020**

Schedule of the Proportionate Share of the Net Pension Liability (Asset) and
Schedule of Pension Contributions.

Changes of benefit terms:

No significant changes.

Changes of assumptions:

Legislation enacted in 2017 modified the SDRS COLA. For COLAs first applicable in 2018, the SDRS COLA will equal the percentage increase in the most recent third calendar quarter CPI-W over the prior year, no less than 0.5% and no greater than 3.5%. However, if the FVFR assuming the long-term COLA is equal to the baseline COLA assumption (currently 2.25%) is less than 100%, the maximum COLA payable will be limited to the increase that if assumed on a long-term basis, results in a FVFR equal to or exceeding 100%. That condition existed as of June 30, 2018 and exists again this year as of June 30, 2019. Future COLAs are assumed to equal the current restricted maximum COLA which was 2.03% as of June 30, 2018 and is 1.88% as of June 30, 2019.

The changes in actuarial assumptions increased the Actuarial Accrued Liability by 1.5% of the Actuarial Accrued Liability based on the 2.03% COLA, reflecting the current and assumed future restricted maximum COLA of 1.88%.

Actuarial assumptions are reviewed in depth periodically, with the next experience analysis anticipated before the June 30, 2022 Actuarial Valuation and any recommended changes anticipated to be first implemented in the June 30, 2022 Actuarial Valuation.